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C O N F I D E N T I A L SARAJEVO 000756

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EUR/SCE (FOOKS,RIEHL), EUR/ACE (VISOCAN), EB/IFD/OMA
(VOLK,YOUTH), D (SMITH), P (BAME)
TREASURY FOR GAERTNER

E.O. 12958: DECL: 04/07/2016
TAGS: [ECON](#) [EFIN](#) [PREL](#) [BK](#)
SUBJECT: BOSNIA: DISPUTE IN INDIRECT TAXATION AUTHORITY
BOARD

REF: A. SARAJEVO 297

[1](#)B. 05 SARAJEVO 2953

Classified By: AMBASSADOR DOUGLAS MCELHANEY, REASON 1.4 (B) AND (D)

[1](#)1. (SBU) Summary: A long-standing dispute over allocation of Single Account revenues between the entities and Brcko came to a head following recent actions of Indirect Taxation Authority Governing Board Chairman Joly Dixon. At the very end of his mandate, Dixon issued a unilateral decision, quickly rescinded after being found illegal by OHR, on the allocation of indirect tax revenues, which favored the Federation at the expense of the Republika Srpska (RS) and Brcko budgets. We are told that this latest move has resulted in a total loss of confidence in Dixon in the RS. Despite this breakdown of Governing Board functioning, the Office of the High Representative (OHR) decided on April 6 to extend Dixon's imposed mandate. It remains to be seen whether the Governing Board will be able to work while Dixon remains as Chairman. End Summary.

From Bad to Worse

[1](#)2. (U) Since mid-2005 the RS has disputed the calculation of the relative percentage distributions to the entities and Brcko from the Single Account (which holds all indirect tax revenues collected in BiH). By the end of 2005 this dispute reached a very public crescendo (Ref B). Since then, the Indirect Taxation Authority Governing Board (ITA GB) has approached complete gridlock (Ref A), and has been unable to come up with a new methodology and calculation for revenue distribution to the entities and Brcko for 2006.

[1](#)3. (C) Recent actions by ITA GB Chairman Joly Dixon have worsened the situation. Dixon's mandate, imposed by OHR, was set to expire on March 31, 2006. The GB held a session on March 28, after which Dixon issued a decision purportedly adopted by the GB that established a temporary allocation of revenues for April 2006. Yet, the GB members never voted on this decision. While the Chairman is able to issue decisions unilaterally in certain cases of gridlock, the Law on the Indirect Taxation System clearly states that any decision on the allocation of revenues must be voted on by a majority of the GB that includes all three Ministers of Finance. As a result, OHR determined the decision to be illegal and it was subsequently withdrawn. Additionally, Dixon changed the allocation percentages in favor of the Federation at the expense of the RS and Brcko. In an email that discussed the decision, Dixon claimed that he needed to change the formula because enough value-added tax (VAT) data was now available to come up with a new calculation. However, the GB has not

agreed on a VAT-based methodology, much less agreed on data to be used as the basis of a new calculation. For January-March 2006, the GB agreed only to use the 2005 coefficients until a new formula could be agreed upon.

Fallout

¶4. (SBU) Calls from the Republika Srpska for Dixon's removal and/or resignation already existed because of his failure to address the problems with the 2005 coefficients. Now RS Prime Minister Dodik has reportedly called Dixon "senile" and RS Finance Minister Dzombic asked the GB members on April 6 to convene an extraordinary session of the GB to begin the process of appointing a new Chairman. In the meantime, until an allocation decision is adopted, the entities and Brcko will receive no money from the Single Account. (The State budget and external debt servicing are funded automatically.)

OHR Still Re-Appoints Dixon

¶5. (SBU) Despite these problems, OHR decided on April 6 to re-appoint Dixon for another three months, with the option to extend another four months after that. The total of possibly seven months brings Dixon's term until the end of October, right after national elections. As a result, if he stays that long OHR may decide he needs to stay even longer, until the new governments can be formed.

Comment

¶6. (C) Decisions on the allocation of revenues from the Single Account are one of the ITA GB's most basic functions. This topic is already inherently controversial, as the

allocation coefficients are essentially a zero-sum game between the entity and Brcko budgets. The RS has a legitimate basis for its claims that it has been short-changed in 2005 in this process. While the attention has been drawn to the RS in this dispute, the basic problem can be traced back to the Federation government's blockage of any agreement on the validity of calculation data, because it knew that the allocation formula would not initially turn out in its favor. As a result, the actions of the GB Chairman only make it more difficult for the entities to reach an agreement. Now that OHR has decided to re-appoint Dixon, likely until after the October elections, gridlock is on the horizon for some time to come. It is clear that for many parties, Dixon has worn out his welcome. End Comment.

MCELHANEY